



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

Inspection of UHY Mann Frankfort Stein & Lipp CPAs, LLP

Issued by the

Public Company Accounting Oversight Board

August 29, 2005

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

**PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2005-066

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

INSPECTION OF UHY MANN FRANKFORT STEIN & LIPP CPAs, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm UHY Mann Frankfort Stein & Lipp CPAs, LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

^{2/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from May 17, 2004 to May 28, 2004. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	3 (Houston, Dallas and The Woodlands, Texas)
Ownership structure	Limited liability partnership; Alternative practice structure affiliated with UHY Advisors, Inc.
Number of partners	26
Number of professional staff ^{3/}	187
Number of issuer audit clients ^{4/}	7

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{4/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{5/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of the performance of six of the Firm's audits of the financial statements of issuers. Those audits and aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.^{6/} The deficiencies identified in four of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuers' financial statements. Those deficiencies included –

^{5/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{6/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. *See* AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the accounting for asset retirement obligations;
- (2) the failure to perform and document sufficient procedures related to the revenues for two issuers and unbilled accounts receivable for one issuer;
- (3) the failure to perform and document sufficient substantive procedures related to significant expenses for two issuers;
- (4) the failure to perform and document sufficient procedures to determine the appropriateness of significant accrued, liabilities for two issuers; and
- (5) the failure to perform and document sufficient procedures related to inventory.

Following the inspection fieldwork and the inspection team's discussion with the Firm of a matter identified above, one issuer restated its financial statements to address a GAAP departure identified by the inspection team.^{7/}

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed the Firm's alternative practice structure, practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

^{7/} The Board inspection process did not include any review of any additional audit work or the restated financial statements.

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.

UHY Mann Frankfort Stein & Lipp
Certified Public Accountants

A Limited Liability Partnership

12 Greenway Plaza, Suite 1202
Houston, TX 77046-1289
Phone /13-561-6500
Fax /13-968-7128
Web www.uhy-us.com

August 3, 2005

Via fax - (202) 862-8433

Mr. George Diacont
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Dear Mr. Diacont:

Please find enclosed the response of UHY Mann Frankfort Stein & Lipp CPAs, LLP to Part I of the 2004 PCAOB inspection report. We will respond separately to Part II.B of the report in the near future.

Sincerely,



Tom G. Elder
Partner

UHY Mann Frankfort Stein & Lipp
Certified Public Accountants

A Limited Liability Partnership

12 Greenway Plaza, Suite 1202
Houston, TX 77046-1289
Phone 713-561 6500
Fax 713-968-7128
Web www.uhy-us.com

August 3, 2005

Mr. George Diacon
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

Dear Mr. Diacon:

We are pleased to provide our response to the Public Company Accounting Oversight Board ("PCAOB" or the "Board") regarding its draft report (the "Report") on the 2004 inspection of UHY Mann Frankfort Stein & Lipp CPAs, LLP ("UHY MFSL").

As the largest non "Big 4" accounting firm in Houston, Texas, with approximately 400 people, our ultimate objective is to ensure our audits are of the highest quality. We believe the 2004 inspection by the PCAOB assisted us in identifying areas where we can improve our performance and we have taken action to address the matters described in the Report.

With respect to the Board's comments in Part I of the Report, we have the following response:

The Report describes only one accounting issue (comment 1) identified by the inspection team and it relates to the failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the accounting for asset retirement obligations. We believe this comment needs further explanation to make this specific circumstance clear and to enable a reader with no knowledge of this engagement or the issue to better understand it.

Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" was required to be adopted effective January 1, 2003 (first quarter) by this Issuer. During our first quarter review, the Issuer told us that they did not have the information needed to implement this new accounting pronouncement. Although we agree the communications were not adequately documented, we conveyed the issue to both management and the audit committee, both of whom indicated that management would begin working to gather the necessary data to implement the pronouncement in the second quarter. During the second and third quarters, the Issuer indicated they were still working on gathering the appropriate data but did not have everything needed to implement the pronouncement. Review reports, which are not required to be included with the financial statements filed with Form 10-Q as long as there is no reference made that the financials have been reviewed by the independent accountants, were not included in any of the Forms 10-Q of this Issuer. We communicated to both management and the audit committee during the third quarter our concern that the Issuer had not been able to appropriately address

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Mr. George Diacont

and implement the new accounting pronouncement and that if not done by year end, we would be required to qualify our report. The Issuer finalized the calculation of the asset retirement obligation during the midst of our audit and implemented the new pronouncement in the fourth quarter of 2003. After the audit and in connection with our client continuance process, we made the decision that we would resign, and we did resign as auditors for this Issuer during 2004, based in part on our concern over their inability to timely prepare GAAP financial statements, along with other logistical issues.

During the PCAOB inspection process, prior to the inspection team reviewing the workpapers for the audit of this Issuer, the engagement team informed the inspection team about the details of this issue and also of our decision to resign as auditors for this Issuer.

Other than the one issue above, of which we were aware as described, no significant accounting or disclosure issues were identified by the PCAOB. The other four comments (comments 2-5) relate to the amount of audit work performed (ie, sample sizes) primarily in the routine accounting processes. While we generally agree with the specific findings reported, we do not agree with the Board's conclusion that we did not obtain sufficient competent evidential matter to support our opinion on the Issuers' financial statements. Much of our audit effort has been concentrated in the non-routine and estimation processes, where judgment on the part of management is involved. Many of the issues identified by the inspection team involved professional judgment and we believe the audit evidence obtained during the audits of the Issuers in total was sufficient to support our opinion on the Issuers' financial statements taken as a whole. With that said, during the inspection process we fully cooperated with the inspection team, including performing additional procedures (ie, increased sample sizes) or preparing additional documentation in response to their comments. The performance of the additional work did not change any of our previous conclusions. Additionally, we have modified our audit approach to ensure we utilize our audit sampling tools more effectively in order to meet the Board's expectations and also enhanced our documentation requirements to ensure compliance with the new documentation standard (PCAOB Auditing Standard No. 3), which was issued subsequent to the PCAOB inspection of our firm.

We appreciate the opportunity to provide our response to Part I of the Report and would welcome discussion of any matters that require further explanation.

Respectfully submitted,

UHY Mann Frankfort Stein & Lipp CPAs, LLP